

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Unit Name SHELBY TOWNSHIP		County OCEANA	
Fiscal Year End 03/31/07		Opinion Date 7/18/07		Date Audit Report Submitted to State 7/24/07			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

**YES NO** Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>	NO OTHER DOCUMENTS REQUIRED	
Certified Public Accountant (Firm Name) BRICKLEY DELONG, PLC			Telephone Number 231-726-5820	
Street Address 316 MORRIS AVE., SUITE 500			City MUSKEGON	State MI
			Zip 49440	
Authorizing CPA Signature <i>Timothy D. Arter, CPA</i> <i>for Brickley DeLong, PLC</i>		Printed Name TIMOTHY D. ARTER		License Number 10253

Shelby Township  
Oceana County, Michigan

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended March 31, 2007

Shelby Township  
**LIST OF ELECTED OFFICIALS**  
March 31, 2007

Supervisor .....Samuel Fleming  
Clerk..... Robert F. Pochyla  
Treasurer .....Julie Near  
Trustees ..... Cindy Rapes  
Kenneth Near

Shelby Township

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As management of Shelby Township, we present to the readers of the Township's financial statements this overview and analysis of the financial activities of Shelby Township for the fiscal year ended March 31, 2007. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

**FINANCIAL HIGHLIGHTS**

The General Fund fund balance increased \$77,105.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the Township's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The governmental activities of the Township include general government, public works, community and economic development and cultural and recreational activities. The Township does not currently have any business-type activities.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories—governmental funds and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the two.

Shelby Township maintains one governmental fund, the General Fund.

**Fiduciary Funds.** Fiduciary Funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the Township's programs. The accounting method used for fiduciary funds is much like that used for the government-wide financial statements.

**Notes to Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's budgetary information as it relates to the actual expenditures for the General Fund.

**Government-wide Financial Analysis**

The first table presented below is a summary of the government-wide statement of net assets for the Township. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of March 31, 2007, the Township's net assets from governmental activities totaled \$1,177,461.

The increase in current assets reflects the increase in unrestricted net assets.

In examining the composition of these net assets, the reader should note that a portion of governmental activities net assets are invested in capital assets (i.e., buildings, land, vehicles, equipment, etc.). These assets are used to provide services to the Township's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental activities actually depict a balance of \$1,030,080. This represents the amount of discretionary resources that can be used for general governmental operations.

**Net Assets**

	Governmental Activities	
	2007	2006
Current assets	\$ 1,031,619	\$ 952,975
Capital assets	147,381	148,294
Total assets	1,179,000	1,101,269
Current liabilities	1,539	-
Net assets		
Invested in capital assets	147,381	148,294
Unrestricted	1,030,080	952,975
Total net assets	\$ 1,177,461	\$ 1,101,269

**Governmental Activities**

Governmental activities increased by \$76,192 during the 2007 fiscal year. Capital grant revenues decreased this year as the Township received a grant to purchase new voting machines in the previous year. Property taxes increased due to growth in the Township's taxable value and investment earnings increased due to higher interest rates. General government expense increased due to small increases in several departments. Public works expenses increased because the Township improved a portion of Pike Road this year. Community and economic development expense decreased because the Township updated its master plan in the previous year. The following table depicts these occurrences.

**Change in Net Assets**

	Governmental Activities	
	2007	2006
Revenues:		
Program revenues		
Charges for services	\$ 4,868	\$ 2,433
Operating grants	3,311	3,172
Capital grants	-	9,600
General revenues		
Property taxes	126,322	122,533
Grants and contributions not restricted	111,295	112,768
Unrestricted investment earning	26,079	19,860
Miscellaneous	9,014	3,383
Total revenues	280,889	273,749
Expenses:		
General government	154,814	146,303
Public works	39,563	20,627
Community and economic development	9,006	17,634
Culture and recreation	1,314	1,314
Total expenses	204,697	185,878
Change in net assets	76,192	87,871
Net assets - Beginning	1,101,269	1,013,398
Net assets - Ending	\$ 1,177,461	\$ 1,101,269



**Financial Analysis of the Government's Funds**

As stated earlier in this discussion and analysis, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At March 31, 2007, the Township's only governmental fund, the General Fund, reported an unreserved fund balance of \$1,030,080. The unreserved balance represents what is available for spending at the Township's discretion. The General Fund does not have any fund balance that is reserved, which means that all fund balance is available for new spending. The General Fund had an increase in fund balance for the 2007 fiscal year of \$77,105 as compared to an increase of \$83,426 in the previous year.

**General Fund Budget**

During the current fiscal year, the Township only made a couple of minor amendments to its original budget.

The following comments summarize the major variations from the final budget to actual revenues and expenditures.

- Intergovernmental revenues – State were over budget by \$20,606 because the Township anticipated cuts in revenue sharing that did not occur.
- Investment earnings were over budget by \$24,579 because interest earned on certificates of deposit was not included in the budget.
- Street improvements were under budget by \$27,067 because Pike Road was not completed in this fiscal year as originally budgeted.

**Capital Assets**

Shelby Township investment in capital assets for its governmental activities as of March 31, 2007 totaled \$147,381 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements and furniture and equipment.

The only significant capital asset addition during the current year was a new air conditioner at the Township hall.

**Capital Assets  
(Net of Accumulated Depreciation)**

	Governmental Activities	
	2007	2006
Land	\$ 34,900	\$ 34,900
Buildings and improvements	103,901	103,454
Furniture and equipment	8,580	9,940
Total	<u>\$ 147,381</u>	<u>\$ 148,294</u>

Additional information on the Township's capital assets can be found in Note D of the "Notes to Financial Statements" of this report.

**General Economic Overview**

The Township's General Fund is comprised of two major revenue sources, state revenue sharing and property tax revenue. Those two sources comprise about 85% of the General Fund's revenue sources. In fiscal 2008, the Township expects state revenue sharing to remain flat and property tax revenues to increase by approximately 1 to 2 percent.

The Township expects the 2008 General Fund expenditures to be higher than 2007 expenditures. The primary reason for the increase is the budgeted completion of Pike Road paving. Expenses in other departments are expected to be comparable to slightly higher than the previous year. The Township expects an increase in fund balance in the General Fund.

**Requests for Information**

This financial report is designed to provide a general overview of Shelby Township's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Shelby Township, P.O. Box 215, Shelby, Michigan 49455 (231) 861-5853.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

July 18, 2007

Township Board  
Shelby Township  
Shelby, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Shelby Township as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Shelby Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Shelby Township, as of March 31, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i through vi and 17 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Shelby Township  
**STATEMENT OF NET ASSETS**  
 March 31, 2007

ASSETS

	Governmental activities
	<u>                    </u>
<b>CURRENT ASSETS</b>	
Cash and investments	\$ 999,177
Receivables	14,170
Due from other governmental units	<u>18,272</u>
Total current assets	1,031,619
 <b>NONCURRENT ASSETS</b>	
Capital assets, net	
Nondepreciable	34,900
Depreciable	<u>112,481</u>
Total noncurrent assets	<u>147,381</u>
Total assets	1,179,000
 <b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	<u>1,539</u>
 <b>NET ASSETS</b>	
Invested in capital assets	147,381
Unrestricted	<u>1,030,080</u>
Total net assets	\$ <u><u>1,177,461</u></u>

The accompanying notes are an integral part of this statement.

Shelby Township  
**STATEMENT OF ACTIVITIES**  
For the year ended March 31, 2007

		Program Revenue		Net (Expense) Revenue and Changes in Net Assets
<i><b>Functions/Programs</b></i>	Expenses	Charges for services	Operating grants and contributions	Governmental activities
Governmental activities				
General government	\$ 154,814	\$ 1,925	\$ -	\$ (152,889)
Public works	39,563	893	3,311	(35,359)
Community and economic development	9,006	2,050	-	(6,956)
Culture and recreation	1,314	-	-	(1,314)
Total governmental activities:	<u>\$ 204,697</u>	<u>\$ 4,868</u>	<u>\$ 3,311</u>	(196,518)
General revenues				
Property taxes, levied for general purposes				126,322
Grants and contributions not restricted to specific programs				111,295
Unrestricted investment earnings				26,079
Miscellaneous				<u>9,014</u>
Total general revenues				<u>272,710</u>
Change in net assets				76,192
Net assets at April 1, 2006				<u>1,101,269</u>
Net assets at March 31, 2007				<u>\$ 1,177,461</u>

The accompanying notes are an integral part of this statement.

Shelby Township  
**BALANCE SHEET**  
Governmental Funds  
March 31, 2007

	<u>General Fund</u>
ASSETS	
Cash and investments	\$ 999,177
Property taxes receivable	14,170
Due from other governmental units	<u>18,272</u>
Total assets	<u><u>\$ 1,031,619</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 1,539
Fund balance	
Unreserved, undesignated	<u>1,030,080</u>
Total liabilities and fund balance	<u><u>\$ 1,031,619</u></u>

The accompanying notes are an integral part of this statement.

Shelby Township  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**  
March 31, 2007

Total fund balance—governmental funds		\$ 1,030,080
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Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not financial resources and  
are not reported in the governmental funds.

Cost of capital assets	\$ 166,729	
Accumulated depreciation	<u>(19,348)</u>	<u>147,381</u>

Net assets of governmental activities in the Statement of Net Asset		\$ <u><u>1,177,461</u></u>
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The accompanying notes are an integral part of this statement.

Shelby Township  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
Governmental Funds  
For the year ended March 31, 2007

	General Fund
<b>REVENUES</b>	
Property taxes	\$ 126,322
Licenses and permits	1,925
Intergovernmental revenues - State	114,606
Charges for services	10,045
Investment earnings	26,079
Other	1,912
	<hr/>
Total revenues	280,889
<b>EXPENDITURES</b>	
Current	
General government	148,905
Public works	39,563
Community and economic development	9,006
Culture and recreation	1,314
Other governmental functions	606
Capital outlay	4,390
	<hr/>
Total expenditures	203,784
	<hr/>
Net change in fund balance	77,105
Fund balance at April 1, 2006	952,975
	<hr/>
Fund balance at March 31, 2007	\$ <u><u>1,030,080</u></u>

The accompanying notes are an integral part of this statement.



Shelby Township  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**  
For the year ended March 31, 2007

Net change in fund balance—total governmental funds	\$	77,105
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$	(5,303)	
Capital outlay		<u>4,390</u>	<u>(913)</u>
Change in net assets of governmental activities	\$		<u><u>76,192</u></u>

The accompanying notes are an integral part of this statement.

Shelby Township  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
Fiduciary Funds  
March 31, 2007

	<u>Trust and Agency</u>	<u>Current Tax</u>	<u>Total agency funds</u>
<b>ASSETS</b>			
Cash and investments	\$ <u>6,078</u>	\$ <u>50,643</u>	\$ <u>56,721</u>
<b>LIABILITIES</b>			
Due to other governmental units	\$ <u>6,078</u>	\$ <u>50,643</u>	\$ <u>56,721</u>

The accompanying notes are an integral part of this statement.

Shelby Township  
**NOTES TO FINANCIAL STATEMENTS**  
March 31, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Shelby Township (Township) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below.

***Reporting Entity***

The Township is a common law township governed by an elected five-member board.

Generally accepted accounting principles require that if the Township has certain oversight responsibilities over other organizations, those organizations should be included in the Township's financial statements. Since no organizations met this criteria, none are included in the financial statements.

***Government-Wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Township has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Township does not allocate indirect costs.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

***Measurement Focus, Basis of Accounting and Financial Statement Presentation***

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Shelby Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued***

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the Township reports the following fund type:

The Agency Funds account for all assets held by the Township on behalf of others in a fiduciary capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

***Assets, Liabilities and Net Assets or Equity***

**Deposits and Investments**

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Township reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of short-term duration, the rate of return is fixed, and the Township intends to hold the investment until maturity.

The Township has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Township to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

Shelby Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Assets, Liabilities and Net Assets or Equity—Continued*

**Receivables and Payables**

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Township bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the Township to the County for collection. The County advances the Township all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Township. The Township recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2006 state taxable value for real/personal property of the Township totaled approximately \$77,927,000. The ad valorem taxes levied consisted of 1.2171 mills for the Township's operating purposes. These amounts are recognized in the General Fund.

**Capital Assets**

Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
Furniture and equipment	5-10

Shelby Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Assets, Liabilities and Net Assets or Equity—Continued*

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Township follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the first week of March, the Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
- c. Not later than the last week in March, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Township Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The Township's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Township Board. The legal level of budgetary control is the department level.

Shelby Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2007

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued**

**Excess of Expenditures Over Appropriations**

During the year ended March 31, 2007, actual expenditures exceeded appropriations for:

	Amended budget	Actual
General Fund		
Township Board	\$ 42,821	\$ 49,159
Supervisor	9,000	11,322
Treasurer	22,162	25,834
Clerk	13,000	15,024

**NOTE C—DEPOSITS AND INVESTMENTS**

**Interest rate risk.** The Township does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The Township has no investment policy that would further limit its investment choices.

**Concentration of credit risk.** The Township does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Township investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The Township does not have any investments exposed to concentration of credit risk.

**Custodial credit risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2007, \$709,550 of the Township's bank balance of \$1,068,547 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk – investments.** The Township does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township does not have any investments exposed to custodial credit risk.

**Foreign currency risk.** The Township is not authorized to invest in investments which have this type of risk.

Shelby Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2007

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2007 was as follows:

	Balance April 1, 2006	Additions	Deductions	Balance March 31, 2007
<b>Governmental activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 34,900	\$ -	\$ -	\$ 34,900
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	115,839	4,390	-	120,229
Furniture and equipment	11,600	-	-	11,600
Total capital assets, being depreciated	127,439	4,390	-	131,829
<b>Less accumulated depreciation:</b>				
Buildings and improvements	12,385	3,943	-	16,328
Furniture and equipment	1,660	1,360	-	3,020
Total accumulated depreciation	14,045	5,303	-	19,348
Total capital assets, being depreciated, net	113,394	(913)	-	112,481
Capital assets, net	\$ 148,294	\$ (913)	\$ -	\$ 147,381

**Depreciation**

Depreciation expense was charged to the general government function.

**NOTE E—OTHER INFORMATION**

**Risk Management**

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

**Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.



Shelby Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2007

**NOTE F—PENSION PLANS**

The Township provides pension benefits for its supervisor, treasurer, clerk and certain employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Plan is administered through Edward Jones, an independent third party. Both the Township and employees are required to contribute an amount equal to 3 percent of the qualified employees' annual compensation each plan year. For the year ended March 31, 2007, pension expense was approximately \$1,700. Employee contributions were approximately \$3,500.

**NOTE G—ECONOMIC DEPENDENCY**

State of Michigan shared revenues represent approximately 40 percent of General Fund revenues.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Shelby Township  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
General Fund  
For the year ended March 31, 2007

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
<b>REVENUES</b>				
Property taxes	\$ 119,500	\$ 119,500	\$ 126,322	\$ 6,822
Licenses and permits	-	-	1,925	1,925
Intergovernmental revenues - State	94,000	94,000	114,606	20,606
Charges for services	-	-	10,045	10,045
Investment earnings	1,500	1,500	26,079	24,579
Other	10,000	10,000	1,912	(8,088)
Total revenues	225,000	225,000	280,889	55,889
<b>EXPENDITURES</b>				
Current				
General government				
Township board	40,610	42,821	49,159	(6,338)
Supervisor	9,000	9,000	11,322	(2,322)
Treasurer	22,000	22,162	25,834	(3,672)
Assessor	30,000	30,827	30,827	-
Clerk	13,000	13,000	15,024	(2,024)
Elections	6,000	6,000	5,699	301
Cemetery	10,000	10,000	9,560	440
Board of review	1,500	1,500	1,480	20
Public works				
Street improvements	65,000	65,000	37,933	27,067
Landfill	1,000	1,000	560	440
Streetlights	1,500	1,500	1,070	430
Community and economic development				
Planning and zoning	11,000	11,000	9,006	1,994
Culture and recreation				
Library	1,500	1,500	1,314	186
Other governmental functions	8,500	8,500	606	7,894
Capital outlay	4,390	4,390	4,390	-
Total expenditures	225,000	228,200	203,784	24,416
Net change in fund balance	\$ -	\$ (3,200)	77,105	\$ 80,305
Fund balance at April 1, 2006			952,975	
Fund balance at March 31, 2007			\$ 1,030,080	

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

July 18, 2007

Township Board  
Shelby Township  
Shelby, Michigan

In planning and performing our audit of the governmental activities and the major fund and the aggregate remaining fund information of Shelby Township as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Shelby Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Shelby Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Shelby Township's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified and we have attached deficiencies in internal control that we consider to be significant deficiencies.

This communication is intended solely for the information and use of management, the Township Board, others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.



## **SIGNIFICANT DEFICIENCIES**

Recommendation 1: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The Organization should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.

Recommendation 2: Salaries and wages should be recorded at the gross amount in the appropriate department on the general ledger.

During our audit, we noted that the Township was recording salaries and wages in the general ledger at the net amount paid and that all employee withholdings and employer matches of social security and Medicare were being recorded as expenditures in Michigan and Federal withholding tax accounts. By recording payroll this way, the Township is underreporting actual total payroll expenditures in each department.

The Township should record all salary and wage expenditures at the gross amount in the appropriate department. The Township should also show employer social security and medicare as expenditures in the appropriate department as well. Employee withholdings should be shown as liabilities until paid.

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